

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 03 PANAMA 002260

SIPDIS

FOR EB/TPP
ALSO FOR WHA/CEN - G. SCHIFFER
STATE PASS USTR/K. RICHARDSON AND R. SMITH

E.O. 12958: N/A

TAGS: [ETRD](#) [ECON](#) [EFIN](#) [ECONOMIC AFFAIRS](#)

SUBJECT: CARIBBEAN BASIN ECONOMIC RECOVERY ACT REPORT

REF: (A) STATE 188288
(B) PANAMA 1539

1. Per ref A, post has emailed the below text to USTR for inclusion in the Sixth Report to Congress on the Operation of the Caribbean Basin Economic Recovery Act (CBERA). As noted ref B, the CBERA and Caribbean Basin Trade Partnership Act have boosted Panama's exports to the U.S., particularly non-traditional agricultural products such as pineapple and watermelon. Post's survey of private firms earlier in 2005 indicated that most new agricultural projects would not have been initiated absent the CBERA/CBTPA program.

Begin text of input for CBERA report:

2. Country Reports: Compliance with Eligibility Criteria

The country reports contained in this section focus particular attention on current performance of CBI countries with respect to the eligibility criteria reflected in the CBTPA, as the most recent expression of U.S. policy objectives linked to the extension of CBI benefits. The pre-existing eligibility conditions of the CBERA are also reflected in the country reports, where relevant. Population statistics are drawn from the Panamanian government's July 2005 estimate. Per capita income figures reflect gross national income statistics published in the World Bank's 2004 World Development Report.

3. Economic Review

Approximately 80% of Panama's economy is services-based, led by maritime transportation, banking, commerce, financial services, and tourism. Industry and agriculture represent about 14% and 6%, respectively, of Panama's economy. Trade and financial ties with the United States are close. Panama attracted major investments in the latter half of the 1990s through privatization efforts in the energy, telecommunications, and transportation sectors. Foreign direct investment fell dramatically from \$1.2 billion in 1998 to only \$99 million in 2002 due largely to the winding up of privatization projects, but has since rebounded to just over \$1 billion in 2004.

Panama's GDP posted its strongest growth in six years in 2004, growing by 7.6%. The Ministry of Economy and Finance (MEF) expects GDP to grow by about 5% in 2005. The Torrijos Administration inherited a fiscal deficit equal to about 5% of GDP upon taking office in September 2004, which exceeded the 2% limit set by Panama's 2002 fiscal responsibility law. The government of Panama is working bring its deficit to about 3.6% of GDP in 2005 through increased tax revenues and reduced growth in spending.

Panama's healthy GDP growth has yet to translate into widely shared prosperity, as some 40% of Panamanians remain mired in poverty (topping 80% in rural indigenous communities). The country also has the second-worst income distribution in Latin America, as the richest 20% hold about two-thirds of Panama's wealth, while the poorest 20% hold only about 1.5% of national wealth. Moreover, unemployment in Panama has remained at 12-16% in recent years. In November 2005, the government reported a drop in unemployment from 11.8% to 9.6%, attributed largely to growth in informal employment. Approximately 20-25% of the workforce is underemployed.

Panama's dollarized economy has typically enjoyed low rates of inflation (hovering around 1% per year). However, annual inflation reached 3.5% by late 2005 - the highest rate the country has seen in some 23 years -- owing to an upward spiral of global oil prices. (As Panama has no domestic oil or gas reserves, it is completely dependent upon imports for fossil fuels.)

4. Commitment to WTO and FTAA

Panama completed its accession to the WTO in 1997. As part of the accession process, Panama's government initiated a number of significant trade policy reforms, including reduced tariffs and non-tariff barriers, elimination of production subsidies, greater disciplines in the area of

competition policy, and strengthened protection of intellectual property. Some of this progress was reversed after late 1999, particularly with increased tariffs and non-tariff barriers to agricultural and food products. Frequent problems in the GOP's non-science-based use of sanitary and phytosanitary restrictions have been of particular concern to U.S. exporters, typified by the Ministry of Agriculture's freeze on import permits for U.S. beef for much of 2005, ostensibly over concerns about a second case of "mad cow" disease found in the United States. Despite these concerns, however, Panama is generally more open to imports of goods and services than was the case prior to its WTO accession. At 8%, Panama's average tariff is one of the lowest in Latin America, although it retains high tariffs on some agricultural products, e.g., 273% for chicken, 63-159% for dairy products, 83% for potatoes and tomatoes, 74% for pork, and 55% for rice.

Panama has been a strong supporter of the FTAA process and played a constructive role in trying to advance FTAA progress at the November 2005 Summit of the Americas. Panama previously hosted the Administrative Secretariat of the FTAA and served as the site for FTAA negotiations during the March 2001 - February 2003 period. Panama has actively pursued bilateral free trade agreements in recent years, having signed FTAs with El Salvador (2002), Taiwan, (2003), and Singapore (2005). The U.S. and Panama have held eight rounds of FTA negotiations over the past two years. In November 2005, Presidents Bush and Torrijos each expressed their desire to conclude an FTA as soon as possible. Panama has also sought an FTA with Chile and is in exploratory discussions for FTAs with Mexico, Mercosur, the Andean Community, and CARICOM.

15. Protection of Intellectual Property:

Intellectual property protection has improved greatly since the mid-1990s when the country passed several strong new laws and began enforcing them vigorously. By virtue of acceding to the WTO as a developed country, Panama was obliged to have TRIPs-compliant legislation in force immediately upon its accession in 1997. Industry representatives and legal experts are in broad agreement that Panama has made progress in setting intellectual property rights standards above the minimum afforded under TRIPs.

16. Provision of Internationally Recognized Worker Rights:

The law protects the right of private sector workers to organize and join unions, though unions must be registered by the government. About 13 percent of the workforce is organized. Most civil servants may join unions and bargain with their respective agencies. Workers employed by the Panama Canal Authority may join unions and bargain collectively but are prohibited from striking.

Collective bargaining is protected by law for private sector workers and is widely practiced. In the public sector, only a small proportion of civil servants may bargain collectively and strike. The minimum wage law does apply in export processing zones, and the Government issued Law 3 of 1997 that might limit effective union organization in the zones, including the restriction of strikes and negotiations with workers who are not represented by a union. Unions assert that this latter practice results in negotiations with employee groups that are dominated by employers.

The employment of children under age 14 is prohibited by law. Children under age fifteen may work only if they have completed primary school. In 2003, the National Child Labor Survey results estimated that 57,524 children ages 5 to 17 years in Panama were working (7 percent of this age group). It is estimated that 11 percent of children between the ages of 10 and 17 work. This is particularly problematic in the agricultural sector among indigenous populations. Education is compulsory through the equivalent of the ninth grade, but enforcement and compliance are uneven. (It should be noted, however, that these figures are from a survey done in 2000 and published in 2003. In June 2005, the GOP created a committee of 27 government and non-governmental organizations that expects to produce updated figures through a new survey.)

The Labor Code establishes minimum wages by regions and industries. Most urban workers employed in the formal sector are paid the legal minimum or more. It also establishes a standard workweek of forty-eight hours and provides for at least one 24-hour rest period weekly. The Ministry of Labor enforces workplace health and safety laws, though the emphasis is more on safety rather than long-term health. The Labor Code also prohibits forced or bonded labor by adults and children.

17. Commitments to Eliminate the Worst Forms of Child Labor

On October 31, 2000, Panama ratified ILO Convention 182. Panama has signed a Memorandum of Understanding with the ILO International Program for the Elimination of Child Labor and is working with the ILO on various programs aimed at phasing out exploitative child labor. Panama has developed a strong legal framework to combat the worst forms of child labor, including a prohibition on employment of minors under the age of 18 in hazardous labor. Panama has also established a special office within the Ministry of Labor to oversee child labor issues. However, some concerns exist with respect to involvement of children in rural coffee and sugar plantations and in the informal sector of the urban economy. Institutional mechanisms to investigate child labor and provide prevention services are slowly being strengthened.

18. Counter-Narcotics Cooperation

The United States and Panama have a long and productive relationship in the counter-narcotics area. Panama has received unconditional certification as cooperating with the United States on counter-narcotics efforts.

19. Implementation of the Inter-American Convention Against Corruption

Panama is a party to the IACAC, but has not yet fully implemented or enforced several of the convention's provisions. Allegations of official corruption have been featured in local media, often prompting libel actions against reporters and publishers, which have a chilling effect on media and reporting. Legal processes are in place to allow investigation of citizen complaints about alleged corruption, but few investigations have resulted in criminal charges. Documented delays in judicial resolution of high profile cases reinforce the belief that while individuals who engage in acts of petty corruption are often punished, high-ranking public officials act with impunity and have little interest in allowing public scrutiny of government expenditures.

10. Transparency in Government Procurement

Procurement practices of government ministries and institutions vary widely. Lack of transparency, excessive delays, and bureaucratic machinations have caused problems for the United States and other bidders on important contracts in the past. Panama submitted an initial offer to accede to the WTO Government Procurement Agreement in 1997 and made a revised offer in early 1999. Accession negotiations had not been concluded as of late 2005.

EATON